MARCH 1987

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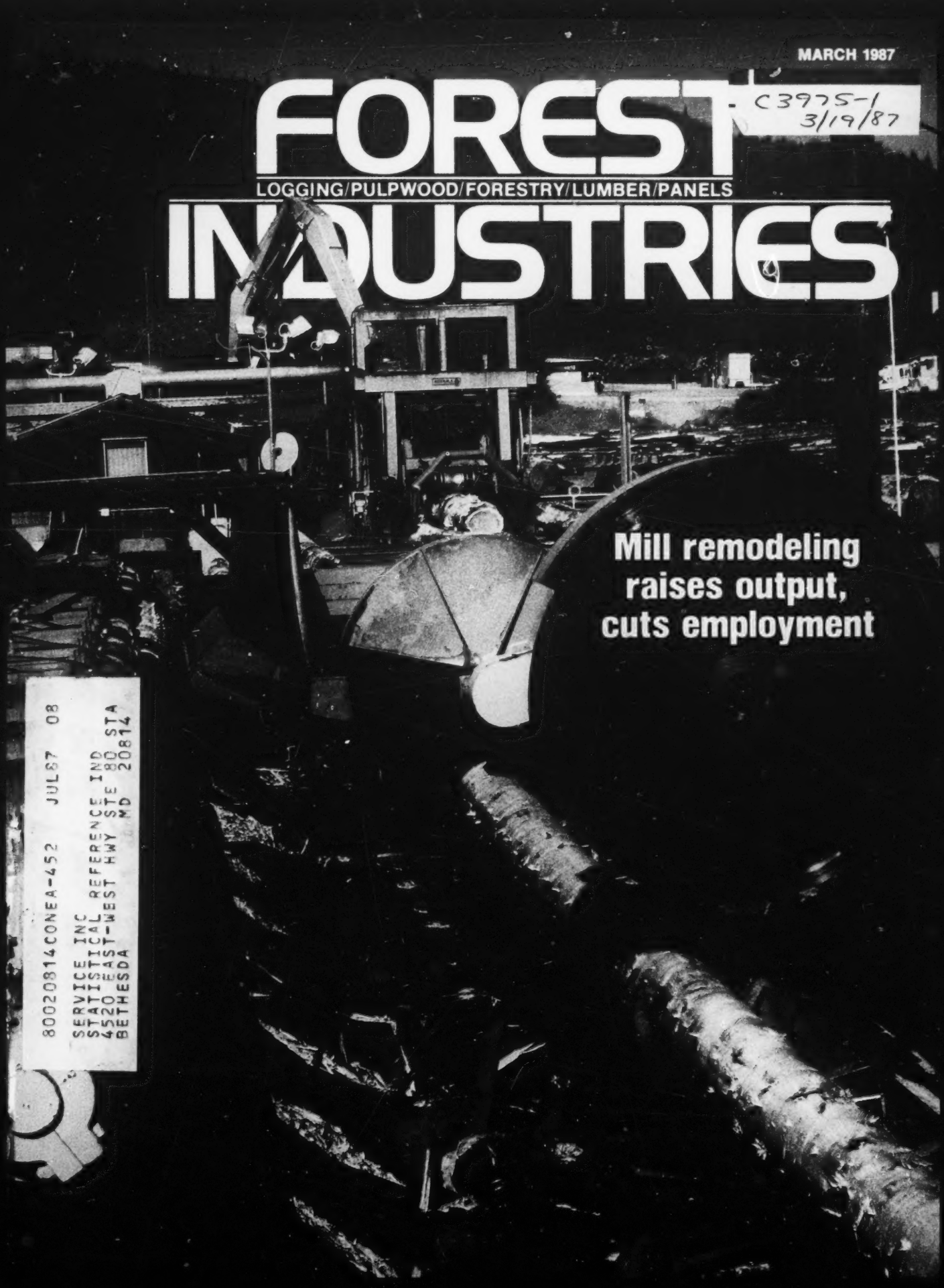
FOREST INDUSTRIES

LOGGING/PULPWOOD/FORESTRY/LUMBER/PANELS



Mill remodeling raises output, cuts employment

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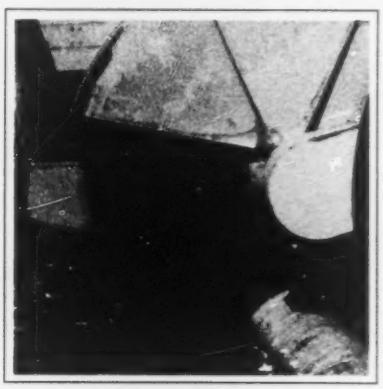
A report from Widman Management Ltd. indicates that from 1987-90 Canada's forest industry won't enjoy the strong market conditions of 1986



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Greater output planned for Lewiston operations

LEWISTON, IDAHO—Update from Potlatch Corp.: the Lewiston sawmill, undergoing a $35-million modernization, will be shut down temporarily in the spring to phase in the new project.

Startup on a one-shift basis will occur later in the year, but plans call for three-shift operation by the first quarter of 1988. Earlier, Potlatch had scheduled two shifts daily for the remodeled mill.

The rebuild involves the complete production process starting with the log yard, said western wood products division vice president James R. Morris.

Along with the sawmill reopening, Potlatch will start up an idle plywood plant at Lewiston on one shift daily, increasing to two shifts early in 1988.

By the end of the year, Potlatch will close permanently its 70-year-old Rutledge sawmill in Coeur d'Alene, Idaho. Employees willing to move will be given hiring preference at Lewiston.

One other item of capital project news this month: Domtar Inc. of Montreal will modernize and expand its insulation board plant at Donnaconna, Que., increasing capacity by 25%. Completion of the C$3-million project is scheduled for September 1987. ■

Friendly takeover sees Stone absorb Southwest

PHOENIX, ARIZ.—April closing is expected for the acquisition of Southwest Forest Industries, based here, by Stone Container Corp. of Chicago. A definitive agreement was executed Jan. 27.

Value of SFI stock to be acquired was placed at about $442 million. Stone will also assume SFI obligations which include long-term debt of $264 million.

Stone is a major producer of containerboard and corrugated boxes. The SFI purchase will mark Stone's entry into newsprint, market pulp and solid-wood products manufacture.

This prospect brings into question the future of SFI's solid-wood business. Seven sawmills produced 321.7 million bd ft in 1985 and two softwood plywood plants have combined annual capacity of 300 million ft². SFI also owns some 334,000 acres of fee timberland in the South, among other assets.

SFI's operations will be consolidated into those of Stone. SFI CEO William A. Franke will leave the company.

U.S. forest industry results, 1986 ($ millions)

Company	4th quarter				Full year			
	Sales	% chg	Earngs[1]	% chg	Sales	% chg	Earngs[1]	% chg
Boise Cascade	969.3	8.8	31.9	68.2	3780.5	1.4	101.5	-2.9
Champion Intl.	1058.0	-11.4	64.5	69.4	4387.6	-24.0	200.8	23.1
Chesapeake	149.9	22.7	7.1	183.1	599.8	33.4	13.7	-12.5
Federal Paper Board	307.2	18.3	13.7[2]	140.6	948.6	21.0	33.5[2]	199.5
Georgia-Pacific	1781.0	12.0	83.0[3]	51.5	7223.0	7.5	265.0[3]	57.4
Great Northern Nekoosa	535.0	11.0	37.0	250.0	2040.0	5.2	35.3	84.6
Intl. Paper	1900.0	72.7	113.0[4]	156.6	5500.0	22.2	305.0[4]	129.3
IP Timberlands	38.0	-19.0	20.0	-23.0	171.2	26.0[5]	98.0	51.0[5]
James River (10/26)	1160.4	72.0	55.5[6]	85.0	—	—	—	—
Jefferson Smurfit	240.8	59.6	9.6	171.4	944.4	48.1	28.0	66.4
Louisiana-Pacific	382.2	22.3	16.8[7]	212.4	1506.2	19.5	64.9	154.5
Pope & Talbot	71.5	-6.2	8.5	n.m.	289.1	-10.0	15.8	137.9
Potlatch Corp.	243.3	7.0	23.1	360.8	978.4	2.7	69.9	85.7
Scott Paper	986.4	19.3	52.9	6.7	3437.0	12.7	186.6[8]	-7.2
Southwest Forest	169.9	21.3	5.1[9]	189.3	631.5	8.5	7.2[9]	n.m.
Union Camp	534.9	18.1	42.9	109.4	2045.2	9.6	129.9	36.6
Westvaco (10/31)	498.7	13.7	43.2	20.8	1811.9	5.2	106.1	3.3
Weyerhaeuser	1450.6	17.7	96.1	51.1	5852.0	8.6	270.0	60.3
Willamette Inds.	317.9	16.5	26.4	94.8	1290.2	4.2	74.7	23.9

[1] Income after taxes, from continuing operations, excluding most significant nonrecurring items in both years.

[2] Federal Paper Board: Quarter and year excludes $15.1-million charge for early redemption of notes.

Georgia-Pacific: Fourth quarter and year include $33-million gain from sale of certain stock and warrants. Year net excludes $17-million gain from change in accounting for pensions and cumulative effect of new timber capitalization program. 1985 quarter and year net exclude $10-million gain from court settlement. 1985 year excludes $30-million loss from discontinued operations. 1985 net excludes $19-million gain from sale of timberlands.

International Paper: 1986 quarter net includes $11-million gain from change in pension accounting. Year and quarter include $19-million net gain relating to sale of headquarters building. Full year net also includes these pretax items: $39-million gain on offerings of depositary units of IP Timberlands Ltd.; $44-million gain from change in pension accounting; $20-million loss from rise in income taxes. 1985 net includes $56-million gain on IP Timberlands offering; $12-million loss from discontinued operations; $29-million charge for early retirement program.

IP Timberlands: Operations began March 14, 1986.

James River: Excludes a $18.4-million charge due to impact of Tax Reform Act.

Louisiana-Pacific: Fourth-quarter net excludes gain of $183 million related to sale of timberland to U.S. government. 1985 year net excludes $66.4-million gain to change in accounting method for investment tax credit.

Scott Paper: 1986 net includes $35-million pretax loss from effects of new tax law and nine-week strike at Mobile, Ala., mill.

Southwest Forest Industries: Year net excludes $10.395-million charge related to the conversion of debentures.

n.m. — Not meaningful.

In other ownership news:

• Fletcher Challenge Ltd., based in New Zealand, has purchased 47% of British Columbia Forest Products Ltd., Vancouver, B.C., for about C$507 million. Fletcher bought nearly 20.4 million common shares from Gordon Investment Corp. and Merrill Lynch Canada Ltd., plus 6.3 million treasury common shares from BCFP, at C$19 per share. The two investment firms bought the shares in May 1986 at C$12.25.

Fletcher Challenge has said it will not attempt to buy more than a 49% interest in BCFP. Fletcher owns 82% of Crown Forest Industries in B.C. and interests in New Zealand and Chile.

• Owens-Illinois Inc., after turning down earlier purchase offers, accepted $60.50 per share, or $3.64 billion, in February from Kohlberg Kravits Roberts & Co. KKR is expected to sell some assets to reduce debt resulting from the leveraged buyout. No specifics on the forest products division, which O-I considered selling before the buyout; however, Louisiana-Pacific earlier was said to have purchased O-I's Jasper, Texas, southern pine plywood plant.

• Balco Industries Ltd., Kamloops, B.C., was courted by two corporate suitors—Slocan Forest Products Ltd. and Timber Investments Ltd.—in January. The nod went to the latter, a privately held company which owns a sawmill,

(Continued on p. 14)